

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Tulare Community Health Clinic (“TCHC”) 1101 Cherry Street Tulare, California Tulare County	Amount Requested: \$240,000 Requested Loan Term: 10 years Date Requested: February 28, 2002 Resolution Number: HII-114
Project Site: 1101 Cherry Street, Tulare, California	
Facility Type: Community Clinic	

Policy Issue: Due to insufficient collateralization of real property, this proposed loans falls outside the normal HELP II financing parameters. However, staff recommends approval for the reasons outlined on the following page.

Use of Loan Proceeds: Loan proceeds will be used to renovate an existing leased building and to purchase dental, medical and office equipment.

Type of Issue: HELP II Loan
Prior HELP II Borrower: No

Financial Overview: TCHC’s financial status continues to improve, and features a strong demand for its services. TCHC’s income statement exhibits profitability over the past three fiscal years, with its most recent year posting the highest profitability. TCHC’s balance sheet remains strong with good liquidity and projected debt service coverage.

Sources of Revenue: (FYE 6-30-01)	<u>Amount</u>	<u>Percent</u>
Net patient services	\$3,425,578	83.3%
Grant revenue	656,870	16.0%
Other	<u>29,491</u>	<u>0.7%</u>
Total operating revenue	<u>\$4,111,939</u>	<u>100.0%</u>

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$240,000	Renovation	\$383,000
Borrower’s Funds	54,100	Purchase Equipment	145,000
Cedillo-Alarcón Grant*	<u>250,000</u>	Financing Costs	<u>26,100</u>
Total Uses	<u>\$554,100</u>	Total Sources	<u>\$554,100</u>

*Approved August 27, 2001

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$240,000 for a term not to exceed 10 years on the renovation and 5 years on equipment for Tulare Community Health Clinic, subject to a \$23,100 debt service reserve fund for the duration of the loan and the standard HELP II loan provisions.

STAFF SUMMARY AND RECOMMENDATION

Tulare Community Health Clinic

February 28, 2002

Resolution Number: HII-114

POLICY ISSUE:

Eligibility for HELP II financing requires that an organization provide real property or equipment collateral with a value of approximately 105% of the loan amount. TCHC is seeking this loan to renovate *leased* property and purchase equipment. Thus, only the equipment can be collateralized. Due to TCHC’s strong financial position, staff is recommending an exception to the HELP II policy. The proposed financing will result in TCHC providing collateral of only 54% of the loan amount, with approximately 44% (\$107,000) of the loan to be secured by the financed equipment. Given TCHC absence of real property to secure the renovation portion of the loan, staff recommends securing the remaining 56% (\$133,000) of the loan amount with \$23,100 of borrower funds (equivalent to 18 monthly payments for the renovation portion) to be deposited in a debt service reserve fund. This funding of a reserve fund is consistent with prior HELP II loans to borrowers with a similar inability to pledge real property.

I. PURPOSE OF FINANCING: TCHC is the recipient of a \$250,000 grant through the Cedillo-Alarcón Community Clinic Investment Act of 2000. This proposed HELP II loan request will be used in conjunction with the grant funds for TCHC’s project. Loan proceeds will be used to complete the renovation of an existing building that is currently leased by TCHC and to purchase dental, medical and office equipment.

***Renovation of existing property*\$383,000**

TCHC currently occupies a portion of its existing building and is now able to lease 4,300 square feet of additional space that was vacated by another tenant. TCHC will renovate a total of 5,800 square feet of space that includes the new space and 1,500 square feet of existing space where TCHC provides dental and medical services. The expansion will add three dental exam rooms, seven medical exam rooms and a waiting room and office space. TCHC currently has a ten-year lease on the property dated October 2001 with the option to renew for an additional ten years. TCHC anticipates completing the project by May 1, 2002.

***Purchase equipment*\$145,000**

TCHC plans to purchase a variety of dental, medical and office equipment. The equipment includes x-ray unites, an EKG machine, fetal monitor, exam tables, waiting room chairs and tables and office furnishings.

Financing Costs 26,100

Debt Service Reserve Fund23,100

Authority Fee3,000

Total.....\$554,100

Financing structure:

- 10-year fully amortized loan term on renovation in the amount of \$133,000.
- 120 equal monthly payments of approximately \$1,285 (annual payments of approximately \$15,420).
- 5-year fully amortized loan term on equipment in the amount of \$107,000.
- 60 equal monthly payments of approximately \$1,923 (annual payments of approximately \$23,076).
- Total interest payments of approximately \$29,470.
- Debt Service Reserve Fund of \$23,100 to be deposited by borrower prior to loan closing.
- Corporate gross revenue pledge.
- Lien on equipment.
- Total loan to value ratio of 184%.
(Equipment of \$107,000 and Debt Service Reserve of \$23,100)

[Intentionally Left Blank]

II. FINANCIAL STATEMENTS AND ANALYSIS:

Tulare Community Health Clinic, Inc. Unrestricted

STATEMENT OF ACTIVITIES	Six Month Period Ended	For the Year Ended June 30		
	December 2001 (Unaudited)	2001	2000	1999
Operating revenues				
Net patient services	\$ 1,742,024	\$ 3,425,578	\$ 2,930,168	\$ 2,421,183
Grant revenue	339,388	656,870	316,886	71,685
Other operating revenue	35,369	29,491	31,198	59,255
Total operating revenue	<u>2,116,781</u>	<u>4,111,939</u>	<u>3,278,252</u>	<u>2,552,123</u>
Operating expenses				
Salaries	621,091	1,287,501	1,076,695	776,290
Physician fees	559,491	1,160,219	1,046,047	930,610
Employee benefits	69,271	194,091	142,290	48,463
Provision for bad debts	29,996	144,008	7,337	9,545
Depreciation	61,449	134,581	110,083	102,129
Medical supplies	54,581	124,783	109,730	99,703
Building lease	55,029	111,499	103,593	80,292
Payroll taxes	45,602	102,840	92,047	69,490
Telephone and communications	28,156	53,186	50,439	20,965
Insurance	16,591	47,067	38,982	24,357
Interest	25,479	42,017	65,881	29,211
Data processing services	13,385	39,019	12,474	4,038
Purchased dental laboratory services	12,461	35,431	31,141	27,557
Utilities	20,302	32,344	28,581	21,030
Office expense	19,324	32,236	29,845	22,952
Purchased management services	27,688	32,107	61,229	29,270
Repairs and maintenance	21,494	30,541	40,179	29,336
Printing	16,681	28,639	19,079	21,856
Dental supplies	12,851	26,704	26,505	44,284
Continuing education	5,464	19,578	10,153	3,700
Dental fees	17,408	17,917	12,978	45,964
Other medical fees	1,801	4,433	12,115	15,355
Equipment maintenance	1,529	3,573	987	5,436
Other	59,195	88,040	115,754	75,012
Total operating expenses	<u>1,796,319</u>	<u>3,792,354</u>	<u>3,244,144</u>	<u>2,536,845</u>
Operating income	320,462	319,585	34,108	15,278
Net assets, beginning of year	<u>368,971</u>	<u>49,386</u>	<u>15,278</u>	<u>-</u>
Net assets, end of year	<u>\$ 689,433</u>	<u>\$ 368,971</u>	<u>\$ 49,386</u>	<u>\$ 15,278</u>

Tulare Community Health Clinic, Inc.
Balance Sheet

	As of December 2001 Unaudited	As of June 30		
		2001	2000	1999
ASSETS				
Current assets:				
Cash and equivalents	\$ 1,014,238	\$ 831,027	\$ 330,924	\$ 224,321
Accounts receivable, net	278,973	288,660	347,071	282,472
Other receivable		-	9,259	18,629
Grant receivable	405,177	396,094	421,688	180,118
Prepaid expenses	31,694	17,264	29,220	30,653
Total current assets	<u>1,730,082</u>	<u>1,533,045</u>	<u>1,138,162</u>	<u>736,193</u>
Property, plant and equipment, net	289,051	255,502	350,512	394,430
Other assets				
Debt issue cost, net	4,500	15,577	12,644	-
Total assets	<u><u>\$ 2,023,633</u></u>	<u><u>\$ 1,804,124</u></u>	<u><u>\$ 1,501,318</u></u>	<u><u>\$ 1,130,623</u></u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued expense	\$ 158,390	\$ 164,096	\$ 213,873	\$ 139,474
Accrued salaries and related costs	85,228	165,108	126,518	88,890
Cost report settlements due	95,033	38,772	-	-
Current maturities of long-term debt	130,442	100,419	31,632	186,961
Total current liabilities	<u>469,093</u>	<u>468,395</u>	<u>372,023</u>	<u>415,325</u>
Long term debt	453,680	535,664	636,083	476,840
Other liabilities	411,427	431,094	443,826	223,180
Total liabilities	1,334,200	1,435,153	1,451,932	1,115,345
Unrestricted net assets	<u>689,433</u>	<u>368,971</u>	<u>49,386</u>	<u>15,278</u>
Total liabilities and net assets	<u><u>\$ 2,023,633</u></u>	<u><u>\$ 1,804,124</u></u>	<u><u>\$ 1,501,318</u></u>	<u><u>\$ 1,130,623</u></u>

Financial Ratios:

	Proforma (1)			
	FYE 2001			
Debt Service Coverage	5.71	5.92	.80	1.00
Debt/Unrestricted Net Assets	2.65	2.00	14.37	56.35
Margin		7.77%	1.04%	.60%
Current Ratio		3.27	3.06	1.77

(1) Recalculates June 2001 audited results to include the impact of this financing.

Financial Discussion:

TCHC's financial status continues to improve, and features a strong demand for its services. TCHC's income statement exhibits profitability over the past three fiscal years, with its most recent year posting the highest profitability.

TCHC's financial status continues to improve, and features a strong demand for its services. Since 1999, it has seen an increase of 33% in patient visits. Patient revenue consists of Medi-Cal, Medicare, private insurance and self-pay. In addition, TCHC has increased grant revenue due to federal and state funding opportunities over the past two years. TCHC's income statement exhibits profitability over the past three fiscal years, with its most recent year posting the highest profitability. In 2001, TCHC posted an impressive net income of \$319,000, an increase of 9.3x its net income from the prior fiscal year. Net income improved so dramatically due to a significant expansion in services that increased patient and grant revenue. The trend appears to be continuing, as the six-month period ending December 31, 2001 shows \$320,000 in net income.

TCHC's balance sheet remains strong with good liquidity and good projected debt service.

TCHC maintains good liquidity with over \$800,000 in cash and cash equivalents. In 1998, TCHC divested from Tulare District Hospital by acquiring assets and prepaid expense. In order to divest, TCHC incurred a long-term debt of over \$750,000. TCHC refinanced this debt in 2000, with the current outstanding balance of approximately \$630,000. With this proposed financing, debt to unrestricted net assets will leverage the balance sheet to 2.65x. However, TCHC's proforma debt services coverage is a solid 5.71x, indicating a positive ability to manage the increased loan obligation.

[Intentionally Left Blank]

III. UTILIZATION STATISTICS:

<u>Type of Service</u>	Patient Visits			
	Six Months Ended			
	December 31	Fiscal Year Ending June 30		
	<u>2001</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Medi-Cal	16,907	33,194	31,558	25,498
Medi-Care	1,963	3,732	2,921	2,392
CHDP	228	420	347	189
Private Insurance	1,131	2,306	1,540	633
Self-pay	2,101	4,788	3,823	2,052
Total Visits	<u>22,330</u>	<u>45,160</u>	<u>40,189</u>	<u>30,764</u>

IV. ORGANIZATION:

Background: TCHC is a non-profit community health clinic with a volunteer Board of Directors. In March 1995, TCHF began offering services as a hospital based Rural Health Clinic owned and operated by Tulare District Hospital. TCHC has since divested from Tulare District Hospital by purchasing the clinic's assets, becoming licensed and certified as a Federally Qualified Health Center, and becoming a federal grantee under Section 330 of the Public Health Service Act.

TCHC provides a full range of primary, specialty, ancillary and dental services. Additional physician contracts are in place to provide supplemental primary and specialty care. Specialty care provided on site includes OB/GYN, dermatology, internal medicine, nephrology, neurology, ENT, geriatric, oncology, pediatric gastroenterology, pediatric pulmonology, general surgery, podiatry and pulmonology.

Licenses: TCHC is licensed as a community clinic with the Department of Health Services.

Competition:

Health Facility (Location, Affiliation)	Client Visits (Year)	Market Share (%)	Estimated Distance Away
Hillman Health Center	9,200	20%	3 miles
Tulare Community Health Center	46,000	80%	N/A

TCHC has successfully captured 75% of the Medi-Cal population in the City of Tulare. With the only competition being Hillman Health Center, a county clinic, patients have chose to enroll with TCHC due to the Medi-Cal managed care in Tulare County.

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/01	Estimated Amount Outstanding After Proposed Financing
Existing:			
WestAmerica	\$653,200	\$630,388	\$630,388
Proposed:			
CHFFA			
HELP II Loan, 2002		N/A	240,000
TOTAL DEBT		\$630,388	\$870,388

VI. SECTION 15438.5 OF THE ACT:

Savings resulting from this proposed financing will contribute to TCHC's long-term viability and provide additional uncompensated medical care to the indigent and uninsured clients who make up its client population.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$240,000 for a term not to exceed 10 years on the renovation and 5 years on equipment for Tulare Community Health Clinic, subject to a \$23,100 debt service reserve fund for the duration of the loan and the standard HELP II loan provisions.